

CITY OF MANISTIQUE, MICHIGAN

BASIC FINANCIAL STATEMENTS

JUNE 30, 2008

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ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Manistique
Manistique, Michigan 49854

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Manistique, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Manistique, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.


We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Manistique, Michigan as of June 30, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2008, on our consideration of the City of Manistique, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and the budgetary comparison information on pages 3 through 14 and 63 through 68, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Manistique, Michigan basic financial statements. The combining nonmajor fund financial statements are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the City of Manistique, Michigan. The combining nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Anderson, Tackman & Company, PLC
Certified Public Accountants

November 21, 2008

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

This discussion and analysis of City of Manistique's financial performance provides an overview of the City's financial activities for the fiscal year ending June 30, 2008. Please read it in conjunction with the City's financial statements, which begin on page 15.

FINANCIAL HIGHLIGHTS

- The City's net assets were reported at \$12,666,308. Net assets for our business-type activities were \$10,151,786, while net assets in our governmental activities were \$2,514,522. We are tracking all assets over \$5,000 (the limit set by Council with recommendation from Management) in a depreciation program which will allow us to account for depreciation and be able to predict and budget more readily for this non-cash expense, a cost that ultimately affects our bottom line and Fund Balance, therefore becoming an important part of the accounting equation.
- The City's expenses for the year totaled \$7,025,771, an increase of \$1,264,171 (21.9%) over 2007. Revenues from all sources were \$7,569,319, an increase of \$1,114,656 (17.3%). Revenues in the Water and Wastewater Utilities remained relatively flat. Expenses in Wastewater went from \$1,136,710 to \$1,121,665, a difference of \$15,045 (1.0%). Expenses in Water went from \$971,296 to \$1,090,630, a difference of \$119,334 (12.3%).
- Sales in Ambulance increased by \$39,952 (9.3%).
- In the City's business type activities, total revenues were \$2,987,263. Business-type activity revenues were 39.47% as a percentage of total revenues compared to 39.32% the previous year. Business type expenses on the other hand calculated at 39.15%, where last year they were 44.38% of total expenses. Water and Wastewater have continued using DPW services when at all possible. This creates a win-win situation for Water, Wastewater, and the General Fund, as it obviously saves the General Fund, while Water and Wastewater save substantially over the cost of contracted help. This could create a potential problem for Water and Wastewater though unless they begin to recoup enough revenue to completely cover these costs and also fund their depreciation. Council and Management raised rates for FY 2008. Raising rates will most certainly help the amount of retained earnings lost each year to depreciation, but it will not completely correct the problem. The City of Manistique has a real area of concern in old lines that need replacing. Underground infrastructure and replacement have been brought to the public's attention, with an emphasis placed on the need for the base fee in water and wastewater. Getting the public educated to the importance of required reserves and sufficient operating capital was extremely difficult. The City Council and Management continue to take a political beating on this issue. It is not an issue that will go away soon as we will need to address this rate yearly and hopefully not allow ourselves to again freeze rates at the detriment to the system.
- The City implemented its webpage, first as manistique.info, and then as both manistique.info and cityofmanistique.com. While not yet completed, the service over time should prove to be an asset to the community and a definite timesaver to our employees. Tax information and the ability to pay taxes online will soon become available as well. All City departments are now connected to high-speed Internet services. Many reports and forms are now transmitted

through the Internet. The service has also allowed the City to avoid the cost of dedicated phone lines for some utility functions.

- The General Fund finished the year with a positive unrestricted fund balance of \$323,297 compared to last year's balance \$261,146. This was after revenues of \$2,267,928 compared to \$2,167,965 in 2007, and expenditures of \$2,169,674 compared to expenditures of \$2,107,423 in 2007.
- The net assets for the governmental activities were \$2,514,522 in 2008 compared to \$2,095,184 in 2007. The Range Street project, along with construction of Central Park, still played a large part in the increase of net assets. Decreased liabilities and paid off loans played a part of this increase. This was our fourth year to implement GASB 34, the tracking of assets. This will be interesting to follow as we watch our depreciation in comparison with purchase of new capital assets and infrastructure improvements. Again, this is an area where depreciation plays a huge part in the value of the City as a whole. This value also serves as an indicator of how we look to lending institutions and our other creditors and determines what kind of interest rates we obtain from them when we bond or borrow.

USING THIS REPORT

This annual report consists of financial statements. The Statement of Net Assets and Statement of Activities (on pages 15 and 16) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 17. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statement provides financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of government.

The City has included the Manistique Housing Commission as a discretely presented component unit as determined by GASB Statement 14, as amended by GASB Statement 39. The Manistique Housing Commission issues its own separately audited financial statement which may be obtained at 400 East Lake Shore Drive, Manistique, Michigan 49854.

Reporting the City as a whole

Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on page 7. One of the most important questions asked about a city's finances is "Is the City as a whole better off or in worse condition as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities reports information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. These two statements report the City's *net assets* and changes in them. You can think of the City's net assets- the difference between assets and liabilities- as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall financial health* of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two categories of activities:

- Governmental activities – Most of the City's basic services are reported here including public safety, public works, parks and recreation, and general administration. Property taxes, state shared revenues and state and federal grants fund the majority of these activities.
- Business-type activities – The City charges a fee to customers to help cover all or most of the costs of certain services it provides. The City's Water, Wastewater, Ambulance, and Recreation funds are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

Our analysis of the City's Major Funds begins on page 11. The fund financial statements begin on page 17 and provide detailed information on the most significant funds – not the City as a whole. Some funds are required to be established by State law, and by bond covenants. However, the City establishes many other funds to help it control and manage money for particular purposes or to show that the City is meeting legal requirements for certain taxes, grants and other money (such as grants received from the U.S. Department of Housing and Urban development). The City's two kinds of funds *governmental* and *proprietary* – use different accounting methods.

- *Governmental funds* – Most of the City's services are reported in governmental funds, which focus on how money flows into and out of those funds, and the balances that are left at year-end available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term* view of the City's general government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and Statement of Activities) and governmental *funds* in a reconciliation that follows the fund financial statements.
- *Proprietary funds* - When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities that we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds.

The City as a Trustee

The City is the trustee, *or fiduciary*, of funds that are collected for other agencies and held for periodic payment to those agencies. The City's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 29. We exclude these funds from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

The City as a Whole

The City's net combined assets were \$12,666,308.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities	
	2007	2008	2007	2008
Current and other assets	\$ 1,572,440	\$ 1,411,044	\$ 1,479,186	\$ 1,186,912
Capital assets (net)	4,555,776	5,458,265	13,717,802	13,895,478
Total Assets	<u>\$ 6,128,216</u>	<u>\$ 6,869,309</u>	<u>\$ 15,196,988</u>	<u>\$ 15,082,390</u>
Long-term debt outstanding	\$ 3,718,561	\$ 3,804,556	\$ 4,917,025	\$ 4,675,075
Other liabilities	314,471	550,231	252,387	255,529
Total Liabilities	<u>4,033,032</u>	<u>4,354,787</u>	<u>5,169,412</u>	<u>4,930,604</u>
Net Assets:				
Invested in capital assets, net of related debt	3,212,215	4,548,709	8,834,934	9,220,403
Restricted assets:				
Expendable	380,613	392,671	-	-
Nonexpendable	160,182	164,253	-	-
Unrestricted	(1,657,826)	(2,591,111)	1,192,642	931,383
Total net assets	<u>\$ 2,095,184</u>	<u>\$ 2,514,522</u>	<u>\$ 10,027,576</u>	<u>\$ 10,151,786</u>

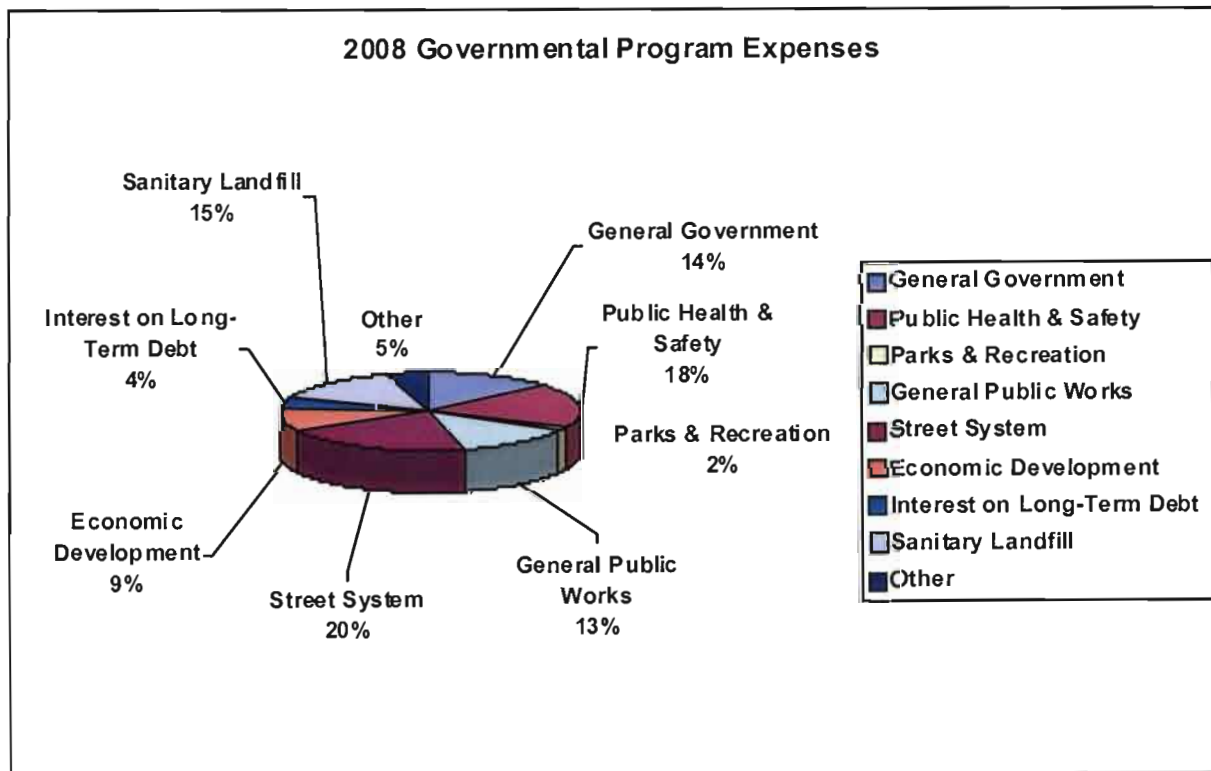
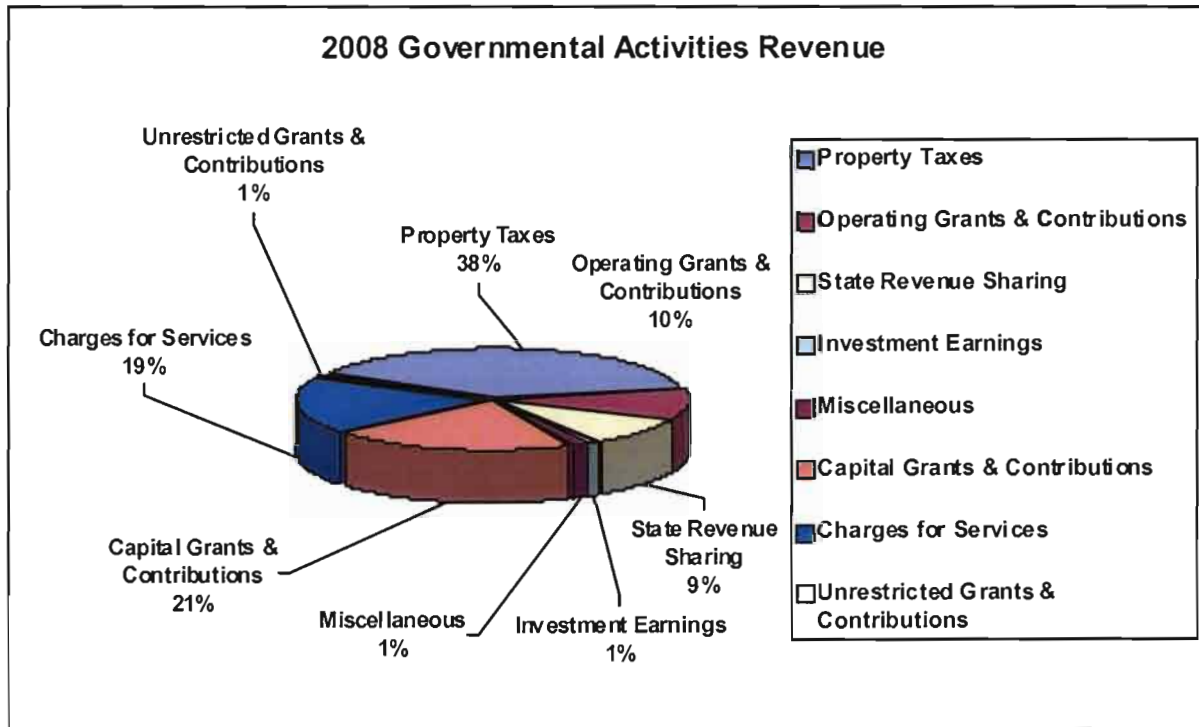
Net assets of the City's governmental activities stood at \$2,514,522. Total assets stood at \$6,869,309. The ratio of assets to liabilities stood at 1.58 in 2008 compared to 1.52. This will serve as our fourth year point in tracking this number, a good indicator of our overall financial health. The City had a net increase in long-term debt of \$85,995 and an increase of \$235,760 in total liabilities. The increase in long-term debt was the net effect of an increase in the post-closure liability of \$624,000 along with repayment of debt of approximately \$500,000.

Net assets in our business-type activities stood at \$10,151,786 in 2008. Total assets were at \$15,082,390. Liabilities stood at \$4,930,604 in 2008. Unrestricted net assets ended the FY at \$931,383 in 2008.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities	
	2007	2008	2007	2008
Revenues:				
Program Revenues:				
Charges for services	\$ 81,569	\$ 860,454	\$ 2,351,884	\$ 2,377,546
Operating grants & contributions	942,687	443,041	-	-
Capital grants & contributions	273,917	944,599	172,090	597,138
General Revenues:				
Property taxes	1,708,342	1,767,267	-	-
State revenue sharing	426,694	426,594	-	-
Other grants & contributions	318,103	27,505	-	-
Unrestricted investment earnings/interest income	53,901	45,336	14,260	12,579
Miscellaneous/Other	111,216	67,260	-	-
Total Revenues	<u>3,916,429</u>	<u>4,582,056</u>	<u>2,538,234</u>	<u>2,987,263</u>
Program Expenses:				
General government	600,386	605,490	-	-
Public health & safety	738,142	766,697	-	-
Parks & recreation	87,122	70,472	-	-
General public works	557,635	537,199	-	-
Street system	635,881	903,192	-	-
Economic development	188,194	381,970	-	-
Sanitary landfill	22,239	628,959	-	-
Other	204,386	200,404	-	-
Interest on long-term debt	170,362	180,957	-	-
Ambulance	-	-	357,671	435,211
Recreation building	-	-	91,576	102,925
Waste water utility	-	-	1,136,710	1,121,665
Water utility	-	-	971,296	1,090,630
Total Expenses	<u>3,204,347</u>	<u>4,275,340</u>	<u>2,557,253</u>	<u>2,750,431</u>
Excess (deficiency) before transfers and contributions	712,082	306,716	(19,019)	236,832
Transfers	<u>(65,000)</u>	<u>112,622</u>	<u>65,000</u>	<u>(112,622)</u>
Increase (decrease) in net assets	647,082	419,338	45,981	124,210
Net assets - beginning	<u>1,448,102</u>	<u>2,095,184</u>	<u>9,981,595</u>	<u>10,027,576</u>
Net assets - ending	<u>\$ 2,095,184</u>	<u>\$ 2,514,522</u>	<u>\$ 10,027,576</u>	<u>\$ 10,151,786</u>

Governmental Activities



The City's total revenues were \$7,569,319 in 2008. The cost of all programs and services was \$7,025,771 for 2008. For 2008, the difference between revenue and expenses was \$543,548.

Governmental Activities

Revenues for the City's governmental activities totaled \$4,694,678 while expenses totaled \$4,275,340.

Table three below reflects the cost of each of the City's five largest activities; Public Safety, Street Systems, Parks and Recreation, Public works, and General Government- as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the taxpayers.

Table 3
Government Activities

	Total Cost of Services		Net Cost of Services	
	2007	2008	2007	2008
Public health & safety	\$ 738,142	\$ 766,697	\$ 590,396	\$ 651,989
Street systems	635,881	903,192	(58,250)	193,859
Sanitary landfill	22,239	628,959	22,239	628,959
General public works	557,635	537,199	412,634	238,932
General government	600,386	605,490	400,626	95,984
Totals	<u>\$ 2,554,283</u>	<u>\$ 3,441,537</u>	<u>\$ 1,367,645</u>	<u>\$ 1,809,723</u>

Total costs of services, and net costs, increased. There were a couple factors that mitigated against attempts to control costs. We were hit with higher cost increases in insurance, such as Blue Cross Blue Shield. We have tried to curtail this cost by joining the MEBS insurance plan. It provides the employee with the benefits of PP02 policy, which has employees sharing in the cost with a deductible of \$600 per person, \$1200 per family, but in fact the City is carrying a higher deductible policy, PPO12, and is paying the difference to MEBS. We are continuing to monitor what savings this will bring, and are exploring other options. If not as expected, health insurance could continue to be an area of focus in future budget planning. In the Major and Local Street Funds, consecutive weekend snowstorms in the winter of 2008 ran up snow removal costs. Major and Local both had sufficient fund balances to accommodate these expenses, and we were glad that we had left them with a surplus.

Business-Type Activities

Revenues for the City's business-type activities totaled \$2,874,641, up from \$2,603,234 in 2007 (10.4%). Most of the increase occurred in Water and Sewer, because of substantially more capital contributes in 2008 than in 2007.

THE CITY'S FUNDS

As the City completed the fiscal year, its governmental funds (as presented in the balance sheet on page 17 & 18) reported a combined fund balance of \$1,052,714, a decrease of \$349,758 from 2007. This was due primarily to an increase in expenditures in the DDA Fund, Range Street, and Central Park. We have taken a sit back and wait approach to allow our funds to grow.

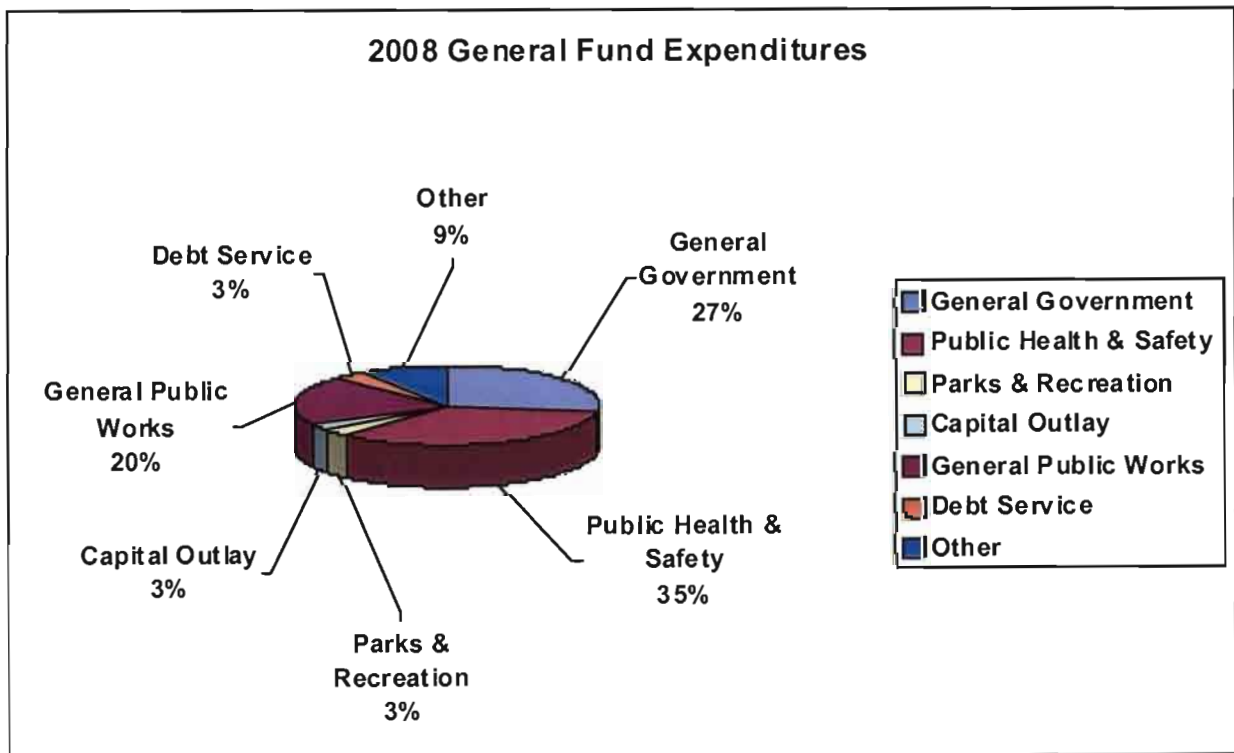
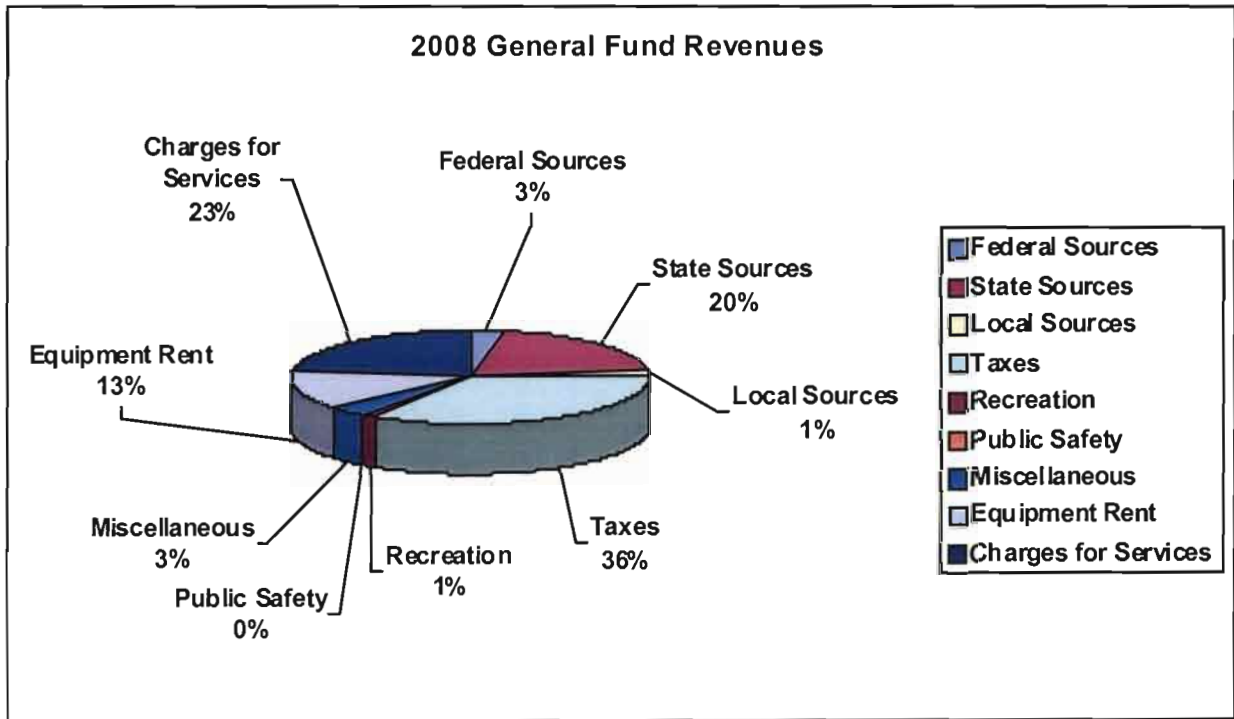
General Fund Budgetary Highlights

Over the course of the year, the budget was amended to recognize known changes to revenue or expenses. As usual, revenue figures were easiest to project, with the final revenue number of \$2,267,928 just \$23,051 over amended budget. Expenses were a little harder to predict, given variables such as winter weather, and costs for health insurance. The final expenditure number of \$2,169,674 was under the revised expenditure estimate of \$2,212,840. Over the next year, we will concentrate on building up fund balances in the General Fund to absorb overruns in the future.

The final revenue number was \$2,267,928, and the final fund balance for General Fund was \$353,654, which included the unrestricted amount of \$323,297, the rest being restricted for inventory, donations, etc. Equipment rent that came in above appropriated amounts helped to retain our fund balance and add to it. One factor that caused cost overruns was weekend snowstorms that required extensive overtime for winter maintenance. We were fortunate to have enough fund balance in the Major and Local Streets funds to cover this extremely high expense in those funds and to bring it back into the General Fund as equipment rent revenue. Keeping higher fund balances in the Major and Local Street funds proved to be a wise move, and we will continue to monitor those funds and plan again accordingly. This will not be easy with the economy struggling.

All employees worked together to reduce expenses in their departments. When we got into March and April, Mother Nature decided to help us along a bit, dumping a significant amount of snow down on our street systems. Thankfully we had enough in Major and Local to cover these expenses, which in turn took the burden of winter salaries and fringes off General Fund. We finished the year adding to our fund balance, thanks to the hard work of all employees. Our goal now is to increase the fund balance to \$325,000, the point at which we will feel more comfortable. It is our understanding that the General Fund should have a fund balance or cushion of approximately 10-15% of expenditures. We now have \$310,000. The City is very fortunate to have personnel willing to work with us, and for that we say **"Thank You"** to them.

General Fund



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2008, the City had \$19,353,743, net of accumulated depreciation, invested in a variety of capital assets including public safety equipment, buildings, parks, roads, water and wastewater. (See table 4 below)

Table 4
Capital Assets at Year-End
(net of accumulated depreciation)

	Governmental Activities		Business-Type Activities	
	2007	2008	2007	2008
Land	\$ 125,807	\$ 125,807	\$ 2,139	\$ 2,139
Land Improvements	97,865	650,452	58,996	58,996
Buildings	831,932	831,932	888,032	913,364
Machinery & Equipment	529,924	611,981	1,329,921	1,421,676
Vehicles	661,909	661,909	-	-
Infrastructure - road system	5,871,355	6,487,603	-	-
Distribution/collection system	-	-	21,200,533	21,831,080
Accumulated Depreciation	(3,563,016)	(3,911,419)	(9,761,819)	(10,331,777)
Total	<u>\$ 4,555,776</u>	<u>\$ 5,458,265</u>	<u>\$ 13,717,802</u>	<u>\$ 13,895,478</u>

This is the fifth year to list capital assets for the governmental activities as we are implementing the new regulation of GASB 34.

DEBT

At year-end the City had a total \$7,379,631 in long-term debt obligations. This is a net decrease of \$701,798 in total long-term debt. The State of Michigan limits the amount of general obligation debt that municipalities can issue to 10% of the current equalized valuation, including TIF valuations, within the City's corporate limits. The City's outstanding general obligation debt of \$2,640,000 is well below the 10% limit of just over \$5,500,000.

Table 5
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Totals	
	2007	2008	2007	2008	2007	2008
General obligation bonds/ notes(backed by the City)	\$ 128,561	\$ 64,556	\$ 95,868	\$ 46,075	\$ 224,429	\$ 110,631
Revenue bonds and notes (backed by specific tax and fee revenues)	3,070,000	2,640,000	4,787,000	4,629,000	7,857,000	7,269,000
Totals	<u>\$ 3,198,561</u>	<u>\$ 2,704,556</u>	<u>\$ 4,882,868</u>	<u>\$ 4,675,075</u>	<u>\$ 8,081,429</u>	<u>\$ 7,379,631</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials will consider many factors when setting the fiscal year budget, tax rates and fees that will be charged for business type activities. One of those factors is the economy. During this period however, Manistique has experienced growth in commercial development. This development will allow the continued growth in service type jobs, but some of these will be at higher wages than in the past. Further, development is continuing to focus on Manistique's waterfront. This growth will affect revenues for the years coming.

The cost of living in Manistique is below the national and State average, but real estate values continue to climb. The growth of other costs continue to rise at the national inflation rate or lower. These factors were taken into account when adopting the 2009 budget. However, the specter of continued decreases in State shared revenues still exists, and cost control will remain a priority. Cost cuts in health insurance expenses for all divisions by wrapping to a PP02 will hopefully help with cost containment. We will continue to monitor all costs, explore health insurance, and will make adjustments where necessary.

For our business type activities, continued slow growth is forecast in water and wastewater. Ambulance remains a stabilizing force in the enterprise funds as the City supplies a need for the community and a steady income for the fund. Recreation seems to be the area that has struggled in the past and this year remains no exception. The City of Manistique also received a DNR grant that built our new Central Park. The DDA has just received a Waterways grant to make needed improvements at the City marina. The city has received a CDBG grant that covered water, sewer, and street improvements for four blocks of Range Street. The city has also received MDOT revenue that is currently funding the improvements to Pine Street.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers and customers, as well as investors and creditors with a general overview of the City's finances and to show the City's accountability for the revenues it receives. If you have questions about this report or need additional information, contact the City Treasurer, or the City Manager at Manistique City Hall, 300 North Maple St, P.O. Box 515, Manistique, Michigan, 49854.

CITY OF MANISTIQUE, MICHIGAN
STATEMENT OF NET ASSETS
June 30, 2008

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Manistique Housing Commission
ASSETS				
Current assets:				
Cash and cash equivalents				
Restricted	\$ 176,875	\$ 370,183	\$ 547,058	\$ 48,347
Unrestricted	931,994	311,197	1,243,191	155,680
Investments	-	-	-	215,733
Receivables :				
Accounts	5,023	109,377	114,400	7,753
Utilities	-	279,106	279,106	-
Delinquent taxes	8,363	-	8,363	-
Cemetery	3,560	-	3,560	-
Internal balances	(108,900)	108,900	-	-
Due from other governmental units	375,530	-	375,530	-
Prepays	-	-	-	28,338
Inventory	18,599	8,149	26,748	-
Total current assets	<u>1,411,044</u>	<u>1,186,912</u>	<u>2,597,956</u>	<u>455,851</u>
Noncurrent assets:				
Capital assets (net)	<u>5,458,265</u>	<u>13,895,478</u>	<u>19,353,743</u>	<u>615,343</u>
Total assets	<u>\$ 6,869,309</u>	<u>\$ 15,082,390</u>	<u>\$ 21,951,699</u>	<u>\$ 1,071,194</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 298,352	\$ 123,859	\$ 422,211	\$ 8,851
Accrued payroll	17,834	10,433	28,267	-
Accrued interest	38,625	52,331	90,956	-
Due to other governmental units	-	-	-	-
Accrued liabilities	-	-	-	36,373
Deferred revenue	33,661	-	33,661	-
Customer deposits	-	9,940	9,940	-
Compensated absences	40,440	17,690	58,130	-
Bonds payable	455,000	164,000	619,000	-
Notes payable	28,943	14,623	43,566	-
Landfill postclosure costs	44,000	-	44,000	-
Total current liabilities	<u>956,855</u>	<u>392,876</u>	<u>1,349,731</u>	<u>45,224</u>
Noncurrent liabilities:				
Compensated absences	121,319	41,276	162,595	-
Bonds payable	2,185,000	4,465,000	6,650,000	-
Notes payable	35,613	31,452	67,065	-
Landfill postclosure costs	1,056,000	-	1,056,000	-
Other	-	-	-	12,090
Total noncurrent liabilities	<u>3,397,932</u>	<u>4,537,728</u>	<u>7,935,660</u>	<u>12,090</u>
Total liabilities	<u>\$ 4,354,787</u>	<u>\$ 4,930,604</u>	<u>\$ 9,285,391</u>	<u>\$ 57,314</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 4,548,709	\$ 9,220,403	\$ 13,769,112	\$ 615,343
Restricted for:				
Expendable:				
Donated projects	3,382	-	3,382	-
Sanitary landfill	389,289	-	389,289	-
Housing assistance payments	-	-	-	48,347
Nonexpendable:				
Cemetery perpetual care	164,253	-	164,253	-
Unrestricted	<u>(2,591,111)</u>	<u>931,383</u>	<u>(1,659,728)</u>	<u>350,190</u>
Total net assets	<u>\$ 2,514,522</u>	<u>\$ 10,151,786</u>	<u>\$ 12,666,308</u>	<u>\$ 1,013,880</u>

See accompanying notes to financial statements.

CITY OF MANISTIQUE, MICHIGAN
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Component Unit
Primary government:							
Governmental activities:							
General government	\$ 605,490	\$ 509,506	\$ -	\$ -	\$ (95,984)	\$ -	\$ (95,984)
Public health and safety	766,697	22,813	24,263	67,632	(651,989)	-	(651,989)
Parks and recreation	70,472	29,868	-	563,593	522,989	-	522,989
General public works	537,199	298,267	-	-	(238,932)	-	(238,932)
Street system	903,192	-	395,959	313,374	(193,859)	-	(193,859)
Economic development	381,970	-	22,819	-	(359,151)	-	(359,151)
Sanitary landfill	628,959	-	-	-	(628,959)	-	(628,959)
Other	200,404	-	-	-	(200,404)	-	(200,404)
Interest on long-term debt	180,957	-	-	-	(180,957)	-	(180,957)
Total governmental activities	4,275,340	860,454	443,041	944,599	(2,027,246)	-	(2,027,246)
Business-type activities:							
Ambulance	435,211	470,838	-	23,000	-	58,627	58,627
Recreation Building	102,925	75,302	-	-	-	(27,623)	(27,623)
Waste water utility	1,121,665	874,947	-	274,647	-	27,929	27,929
Water utility	1,090,630	956,459	-	299,491	-	165,320	165,320
Total business-type activities	2,750,431	2,377,546	-	597,138	-	224,253	224,253
Total primary government	7,025,771	3,238,000	443,041	1,541,737	(2,027,246)	224,253	(1,802,993)
Component Unit:							
Manistique Housing Commission	\$ 593,358	\$ 150,912	\$ 331,702	\$ 56,372	-	-	(54,372)
General revenues:							
Property taxes					1,576,322	-	1,576,322
Property taxes - restricted for sanitary landfill					190,945	-	190,945
State revenue sharing					426,594	-	426,594
Grants and contributions not restricted to specific programs					23,434	-	23,434
Contributions to permanent fund					4,071	-	4,071
Unrestricted investment earnings					45,336	12,579	57,915
Miscellaneous					67,260	-	67,260
Transfers					112,622	(112,622)	-
Total general revenues and transfers					2,446,584	(100,043)	2,346,541
Changes in net assets					419,338	124,210	543,548
Net assets - beginning					2,095,184	10,027,576	12,122,760
Net assets - ending					\$ 2,514,522	\$ 10,151,786	\$ 12,666,308

See accompanying notes to financial statements.

CITY OF MANISTIQUE, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

	General Fund	Major Street	Local Street
ASSETS			
Cash and equivalents:			
Restricted	\$ 12,622	\$ -	\$ -
Unrestricted	320,358	173,575	39,323
Receivables:			
Accounts	5,023	-	-
Delinquent taxes	7,389	-	-
Cemetery	3,560	-	-
Due from other funds	120,580	-	-
Due from other governmental units	141,317	30,983	11,229
Inventory	18,599	-	-
	<u>18,599</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 629,448</u>	<u>\$ 204,558</u>	<u>\$ 50,552</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 36,321	\$ 1,012	\$ 206
Accrued payroll	16,601	411	120
Due to other funds	205,363	2,066	500
Due to other governmental units	-	-	-
Deferred revenue	17,509	-	-
	<u>17,509</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>275,794</u>	<u>3,489</u>	<u>826</u>
Fund balances:			
Reserved for:			
Inventory	18,599	-	-
Donated projects	3,382	-	-
Sanitary landfill	8,376	-	-
Cemetery perpetual care	-	-	-
Unreserved, undesignated	323,297	201,069	49,726
Unreserved, reported in non-major:			
Capital project fund	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>353,654</u>	<u>201,069</u>	<u>49,726</u>
Total liabilities and fund balances	<u>\$ 629,448</u>	<u>\$ 204,558</u>	<u>\$ 50,552</u>

See accompanying notes to financial statements.

<u>DDA Fund</u>	<u>Central Park Project</u>	<u>Range Street Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 164,253	\$ 176,875
584	(26,588)	1,206	423,536	931,994
	-	-	-	5,023
-	-	-	974	8,363
-	-	-	-	3,560
-	-	-	-	120,580
22,819	140,398	28,784	-	375,530
-	-	-	-	18,599
<u>\$ 23,403</u>	<u>\$ 113,810</u>	<u>\$ 29,990</u>	<u>\$ 588,763</u>	<u>\$ 1,640,524</u>
\$ 106,719	\$ 106,458	\$ 37,821	\$ 9,815	\$ 298,352
702	-	-	-	17,834
20,279	-	-	1,272	229,480
-	-	-	-	-
-	-	-	24,635	42,144
<u>127,700</u>	<u>106,458</u>	<u>37,821</u>	<u>35,722</u>	<u>587,810</u>
-	-	-	-	18,599
-	-	-	-	3,382
-	-	-	-	8,376
-	-	-	164,253	164,253
(104,297)	7,352	(7,831)	-	469,316
-	-	-	388,788	388,788
<u>(104,297)</u>	<u>7,352</u>	<u>(7,831)</u>	<u>553,041</u>	<u>1,052,714</u>
<u>\$ 23,403</u>	<u>\$ 113,810</u>	<u>\$ 29,990</u>	<u>\$ 588,763</u>	<u>\$ 1,640,524</u>

CITY OF MANISTIQUE, MICHIGAN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2008

Total fund balances for governmental funds	\$ 1,052,714
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Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$	125,807	
Land improvements		650,452	
Buildings		831,932	
Machinery and equipment		611,981	
Vehicles		661,909	
Infrastructure - road system		6,487,603	
Accumulated depreciation		<u>(3,911,419)</u>	
Total capital assets			5,458,265

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets.

Accrued interest on long-term debt	\$	(38,625)	
Bonds payable		(2,640,000)	
Notes payable		(64,556)	
Landfill postclosure costs		(1,100,000)	
Compensated absences		<u>(161,759)</u>	(4,004,940)

Deferred revenue is reported as a liability on the balance sheet of the fund financial statements and has been recognized as revenue in the statement of activities has been removed from the statement of net assets.

	<u>8,483</u>
Total net assets of governmental activities	<u><u>\$ 2,514,522</u></u>

See accompanying notes to financial statements.

CITY OF MANISTIQUE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

	General Fund	Major Street	Local Street
REVENUES:			
Federal sources	\$ 67,632	\$ -	\$ -
State sources	448,638	327,429	68,530
Local sources	30,792	-	-
Taxes	777,568	-	-
Recreation	29,868	-	-
Public safety	1,866	-	-
Charges for services	517,746	-	-
Equipment rental	294,276	-	-
Interest income	22,405	4,739	1,464
Miscellaneous	77,137	-	-
	<u>2,267,928</u>	<u>332,168</u>	<u>69,994</u>
Total revenues			
EXPENDITURES:			
General government	595,391	-	-
Public health and safety	733,745	-	-
Parks and recreation	66,311	-	-
General public works	439,353	-	-
Street system	-	291,624	100,510
Economic development	-	-	-
Sanitary landfill	-	-	-
Capital outlay	66,000	-	-
Debt service:			
Principal	64,005	-	-
Interest and other charges	4,465	-	-
Other	200,404	-	-
	<u>2,169,674</u>	<u>291,624</u>	<u>100,510</u>
Total expenditures			
Excess revenues (expenditures)	<u>98,254</u>	<u>40,544</u>	<u>(30,516)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	-	-	25,000
Transfers out	(25,000)	(25,000)	-
	<u>(25,000)</u>	<u>(25,000)</u>	<u>25,000</u>
Total other financing sources (uses)			
Net changes in fund balances	73,254	15,544	(5,516)
Fund balances - beginning	<u>280,400</u>	<u>185,525</u>	<u>55,242</u>
Fund balances - ending	<u>\$ 353,654</u>	<u>\$ 201,069</u>	<u>\$ 49,726</u>

See accompanying notes to financial statements.

DDA Fund	Central Park Project	Range Steet Project	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 466,861	\$ -	\$ 534,493
22,819	424,000	-	133,794	1,425,210
-	105,549	-	48,509	184,850
798,754	-	-	190,945	1,767,267
-	-	-	-	29,868
-	-	-	-	1,866
-	-	-	-	517,746
-	-	-	-	294,276
5,805	-	-	10,923	45,336
21,618	-	-	4,071	102,826
<u>848,996</u>	<u>529,549</u>	<u>466,861</u>	<u>388,242</u>	<u>4,903,738</u>
-	-	-	-	595,391
-	-	-	-	733,745
-	-	-	-	66,311
-	-	-	-	439,353
-	-	-	-	392,134
296,005	-	-	-	296,005
-	-	-	45,809	45,809
191,684	557,525	670,225	446,912	1,932,346
-	-	-	430,000	494,005
-	-	-	166,150	170,615
-	-	-	-	200,404
<u>487,689</u>	<u>557,525</u>	<u>670,225</u>	<u>1,088,871</u>	<u>5,366,118</u>
<u>361,307</u>	<u>(27,976)</u>	<u>(203,364)</u>	<u>(700,629)</u>	<u>(462,380)</u>
-	20,000	165,166	516,268	726,434
<u>(563,812)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(613,812)</u>
<u>(563,812)</u>	<u>20,000</u>	<u>165,166</u>	<u>516,268</u>	<u>112,622</u>
(202,505)	(7,976)	(38,198)	(184,361)	(349,758)
<u>98,208</u>	<u>15,328</u>	<u>30,367</u>	<u>737,402</u>	<u>1,402,472</u>
<u>\$ (104,297)</u>	<u>\$ 7,352</u>	<u>\$ (7,831)</u>	<u>\$ 553,041</u>	<u>\$ 1,052,714</u>

CITY OF MANISTIQUE, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

Net changes in fund balances - total governmental funds	\$	(349,758)
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$1,250,891) exceeded depreciation expense (\$348,402) .

902,489

Repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Assets.

Principal repayments:

Bond principal

430,000

Note principal

64,005

Landfill postclosure costs

(580,000)

(85,995)

Net change in deferred revenue which was recognized as revenue in the prior year in the statement of activities.

(19,936)

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences

(17,120)

Accrued interest on debt

(10,342)

(27,462)

Changes in net assets of governmental activities

\$ 419,338

See accompanying notes to financial statements.

CITY OF MANISTIQUE, MICHIGAN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2008

	Ambulance Service	Waste Water Utility	Water Utility
ASSETS			
Current assets:			
Cash and cash equivalents:			
Restricted	\$ -	\$ 208,849	\$ 131,334
Unrestricted	150,159	99,775	58,348
Receivables:			
Accounts	109,377	-	-
Utilities	-	157,094	122,012
Due from other funds	-	205,363	-
Inventory	-	5,537	2,612
Total current assets	<u>259,536</u>	<u>676,618</u>	<u>314,306</u>
Noncurrent assets:			
Capital assets (net)	<u>242,960</u>	<u>6,626,818</u>	<u>6,268,253</u>
Total assets	<u>\$ 502,496</u>	<u>\$ 7,303,436</u>	<u>\$ 6,582,559</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 7,611	\$ 5,340	\$ 91,655
Accrued payroll	1,640	4,672	3,903
Accrued interest	-	44,175	8,156
Due to other funds	3,743	1,413	91,307
Customer deposits	-	2,863	7,077
Compensated absences	-	10,227	7,463
Bonds payable	-	34,000	130,000
Notes payable	-	-	-
Total current liabilities	<u>12,994</u>	<u>102,690</u>	<u>339,561</u>
Noncurrent liabilities:			
Compensated absences	-	23,863	17,413
Bonds payable	-	2,322,000	2,143,000
Notes payable	-	-	-
Total noncurrent liabilities	<u>-</u>	<u>2,345,863</u>	<u>2,160,413</u>
Total liabilities	<u>\$ 12,994</u>	<u>\$ 2,448,553</u>	<u>\$ 2,499,974</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 242,960	\$ 4,270,818	\$ 3,995,253
Unrestricted	<u>246,542</u>	<u>584,065</u>	<u>87,332</u>
Total net assets	<u>\$ 489,502</u>	<u>\$ 4,854,883</u>	<u>\$ 4,082,585</u>

See accompanying notes to financial statements.

Nonmajor Enterprise Fund <u>Recreation Building</u>	Total Enterprise Funds
\$ 30,000	\$ 370,183
2,915	311,197
-	109,377
-	279,106
-	205,363
-	8,149
<u>32,915</u>	<u>1,283,375</u>
 <u>757,447</u>	 <u>13,895,478</u>
 <u>\$ 790,362</u>	 <u>\$ 15,178,853</u>
 \$ 19,253	 \$ 123,859
218	10,433
-	52,331
-	96,463
-	9,940
-	17,690
-	164,000
14,623	14,623
<u>34,094</u>	<u>489,339</u>
 -	 41,276
-	4,465,000
31,452	31,452
<u>31,452</u>	<u>4,537,728</u>
 <u>\$ 65,546</u>	 <u>\$ 5,027,067</u>
 \$ 711,372	 \$ 9,220,403
13,444	931,383
<u>\$ 724,816</u>	<u>\$ 10,151,786</u>

CITY OF MANISTIQUE, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2008

	Ambulance Service	Waste Water Utility	Water Utility
OPERATING REVENUES:			
Charges for services	\$ 470,729	\$ 843,900	\$ 942,712
Miscellaneous	109	31,047	13,747
Total operating revenue	470,838	874,947	956,459
OPERATING EXPENSES:			
Salaries	164,896	158,464	149,529
Fringe benefits	49,676	129,163	134,892
General administration	-	84,138	89,358
Supplies	9,917	32,214	50,249
Contracted services	10,355	50,846	53,143
Safety	-	331	1,168
Repairs and maintenance	9,291	61,192	119,423
Utilities	3,942	143,296	76,589
Communications	226	5,630	5,302
Printing and publishing	-	-	1,013
Transportation	18,148	4,725	4,095
Insurance	5,250	15,423	15,423
Conference and workshops	1,263	687	1,099
Equipment rental	-	-	-
Uncollectible accounts	129,021	-	-
Other services and charges	-	37,207	30,652
Depreciation	27,292	267,683	244,365
Miscellaneous	4,227	24,522	7,786
Total operating expenses	433,504	1,015,521	984,086
Operating income (loss)	37,334	(140,574)	(27,627)
NONOPERATING REVENUES (EXPENSES):			
Interest income	3,253	3,969	3,789
Interest expense	(1,707)	(106,144)	(106,544)
Total nonoperating revenue (expense)	1,546	(102,175)	(102,755)
Income (loss) before transfers and contributions	38,880	(242,749)	(130,382)
Capital contributions	23,000	274,647	299,491
Transfer in	-	60,000	10,644
Transfer out	-	(75,644)	(112,622)
Change in net assets	61,880	16,254	67,131
Total net assets - beginning	427,622	4,838,629	4,015,454
Total net assets - ending	\$ 489,502	\$ 4,854,883	\$ 4,082,585

See accompanying notes to financial statements.

Nonmajor Enterprise Fund <u>Recreation Building</u>	Total Enterprise Funds
\$ 60,302	\$ 2,317,643
15,000	59,903
<u>75,302</u>	<u>2,377,546</u>
21,165	494,054
1,664	315,395
-	173,496
5,341	97,721
900	115,244
-	1,499
2,680	192,586
26,635	250,462
368	11,526
639	1,652
-	26,968
2,785	38,881
-	3,049
627	627
-	129,021
-	67,859
32,855	572,195
4,288	40,823
<u>99,947</u>	<u>2,533,058</u>
<u>(24,645)</u>	<u>(155,512)</u>
1,568	12,579
<u>(2,978)</u>	<u>(217,373)</u>
<u>(1,410)</u>	<u>(204,794)</u>
(26,055)	(360,306)
-	597,138
5,000	75,644
-	<u>(188,266)</u>
(21,055)	124,210
<u>745,871</u>	<u>10,027,576</u>
<u>\$ 724,816</u>	<u>\$ 10,151,786</u>

CITY OF MANISTIQUE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2008

	Ambulance Service	Waste Water Utility	Water Utility
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 458,826	\$ 901,884	\$ 987,147
Payments to suppliers	(190,131)	(475,395)	(501,624)
Payments for wages and related benefits	(215,334)	(279,667)	(281,449)
Other receipts (payments)	(1,337)	4,344	86,535
	<u>52,024</u>	<u>151,166</u>	<u>290,609</u>
Net cash provided (used) by operating activities			
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	-	(15,644)	(101,978)
Cash received (paid) on customer deposits	-	173	308
	<u>-</u>	<u>(15,471)</u>	<u>(101,670)</u>
Net cash provided (used) by noncapital financing activities			
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of fixed assets	(94,217)	(287,705)	(309,664)
Capital contributions	23,000	274,647	299,491
Principal paid on debt instruments	(33,000)	(33,000)	(125,000)
Interest paid on debt instruments	(1,707)	(106,763)	(106,882)
Proceeds from debt issuance	-	-	-
	<u>(105,924)</u>	<u>(152,821)</u>	<u>(242,055)</u>
Net cash provided (used) by capital and related financing activities			
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earnings	3,253	3,969	3,789
	<u>(50,647)</u>	<u>(13,157)</u>	<u>(49,327)</u>
Net increase (decrease) in cash and equivalents			
Cash and equivalents, beginning of year	200,806	321,781	239,009
	<u>150,159</u>	<u>308,624</u>	<u>189,682</u>
Cash and equivalents, end of year			
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 37,334	\$ (140,574)	\$ (27,627)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	27,292	267,683	244,365
Changes in assets and liabilities:			
(Increase) decrease in receivables	(12,012)	26,937	30,688
(Increase) decrease in from other funds	-	20,000	-
Increase (decrease) in accounts payable	1,509	(15,184)	(46,324)
Increase (decrease) in accrued payroll	(762)	7,960	2,972
Increase (decrease) in deferred revenue	-	-	-
Increase (decrease) in due to other funds	(1,337)	(15,656)	86,535
	<u>52,024</u>	<u>151,166</u>	<u>290,609</u>
Net cash provided by operating activities			

See accompanying notes to financial statements.

Nonmajor Enterprise Fund <u>Recreation Building</u>	Total Enterprise Funds
\$ 75,302	\$ 2,423,159
(25,086)	(1,192,236)
(22,716)	(799,166)
-	89,542
<u>27,500</u>	<u>521,299</u>
5,000	(112,622)
-	481
<u>5,000</u>	<u>(112,141)</u>
(58,285)	(749,871)
-	597,138
(16,793)	(207,793)
(2,978)	(218,330)
-	-
<u>(78,056)</u>	<u>(578,856)</u>
<u>1,568</u>	<u>12,579</u>
(43,988)	(157,119)
<u>76,903</u>	<u>838,499</u>
<u>\$ 32,915</u>	<u>\$ 681,380</u>
\$ (24,645)	\$ (155,512)
32,855	572,195
-	45,613
-	20,000
19,177	(40,822)
113	10,283
-	-
-	69,542
<u>\$ 27,500</u>	<u>\$ 521,299</u>

CITY OF MANISTIQUE, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2008

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$ 2,572</u>
LIABILITIES	
Due to other units governmental units	<u>\$ 2,572</u>

See accompanying notes to financial statements.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) REPORTING ENTITY

The City of Manistique was incorporated under the provision of Act 279, P. A. 1909, as amended (Home Rule City Act) and operates under a Council-Manager form of government. The City provides the following services as authorized by its charter: public safety (police and fire), highways and streets, utility services, recreation, public improvements, planning and zoning, and general administrative services.

The City's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body establishing governmental accounting and financial reporting principles. The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements and Management's Discussion and Analysis*.

For financial reporting purposes, in conformance with GASB Statement 14, as amended by GASB Statement 39, the City's basic financial statements include the accounts of all City operations for which the City exercises oversight responsibility. In addition, State of Michigan, Department of Treasury pronouncements were considered in the determination process. The component units discussed below are included in the City's reporting entity because of the significance of their operational and financial relationships with the City.

Component Units – In conformity with U.S. generally accepted accounting principles, the financial statements of the component units have been included in the financial reporting entity as a blended component unit or as a discretely presented component unit.

Blended Component Unit – The City has one component unit in which the financial data has been blended with the primary government financial statement.

Downtown Development Authority – For financial reporting purposes the Downtown Development Authority is reported as if it were part of the City's operations because the City Council maintains budgetary control and its purpose is to promote and provide financial support to the downtown district.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Discretely Presented Component Unit – The component unit column includes the financial data of the Manistique Housing Commission, which is reported in a separate column to emphasize that they are legally separate from the City.

Manistique Housing Commission – The Housing Commission provides housing to low income and elderly citizens of the City of Manistique. The Housing Commission board is appointed by the City Council and therefore the Housing Commission is determined to be a component unit of the City of Manistique because of the control that the City can exercise over the Housing Commission activities. The Housing Commission, which has a fiscal year end of December 31, issues its own separately audited financial statements, which may be obtained at:

Manistique Housing Commission
400 East Lake Shore Drive
Manistique, Michigan 49854

The accounting policies of the City of Manistique conform to U.S. generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

(2) BASIS OF PRESENTATION

Government-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the City as a whole. They include all funds of the City except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods or services provided by a given function and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

Fund Financial Statements:

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the City are considered major if it meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

The City reports the following as major governmental funds in accordance with the above criteria:

The General Fund which is described below.

The Major Street Fund which is used to account for the repair, maintenance and construction of the City's major streets.

The Local Street Fund which is used to account for the repair, maintenance and construction of the City's local streets.

The DDA Fund which is used to account for the support and improvement of the City's downtown district.

The Central Park Project Fund is used to account for the construction activities related to the Central Park.

The Range Street Project Fund is used to account for the construction activities related to Range Street.

The City reports the following as major enterprise funds in accordance with the above criteria:

The Ambulance Service Fund accounts for ambulance services provided to the citizens of the City of Manistique.

The Waste Water Utility Fund accounts for waste water services provided to the citizens of the City of Manistique.

The Water Utility Fund accounts for water services provided to the citizens of the City of Manistique.

The funds of the City are described below:

Governmental Funds

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds – Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Project Funds – The City's capital project funds are used to account for the costs associated with specific capital projects within the City.

Permanent Fund – The Cemetery Perpetual Care Fund is the City's only permanent fund. The principal portion of this fund must stay intact, but the interest earnings are used to provide care for the cemetery.

Proprietary Funds

Enterprise Funds – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

Fiduciary Funds

Agency Fund - The Tax Fund and the Water Tower Trust funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals or other governments. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(3) MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-type activities as well as the proprietary fund financial statements are presented using the economic resource measurement focus as defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

As allowed by GASB Statement No. 20, the City has elected not to apply the FASB statements and interpretations issued after November 30, 1989 to its business-type activities and proprietary funds.

(4) ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE

- a. Cash and Equivalents – The City’s cash and cash equivalents as reported in the Statement of Cash Flows and the Statement of Net Assets are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectable.
- c. Due to and Due From Other Funds – Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

- d. Inventory – Materials inventory in the Waste Water and Water utility funds and supplies inventory in the General Fund are recorded at the lower of cost or market using the first-in first-out method of valuing inventory.
- e. Fixed Assets – The accounting and reporting treatment applied to property plant and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Prior to July 1, 2003, governmental funds' infrastructure asset, the major and local street systems, were not capitalized. These assets have been valued at estimated historical cost.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	15 – 50 years
Machinery and equipment	4 – 15 years
Infrastructure	20 – 50 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide financial statements.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

- f. Restricted Assets – Restricted assets include cash and equivalents which have been restricted by statute, third party requirements or by contract.
- g. Long-Term Debt – The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable and notes payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

- h. Compensated Absences – The City's policies regarding vacation and sick time permits employees to accumulate earned but unused vacation and sick time. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while proprietary funds report the liability as it is incurred.
- i. Deferred Revenues – In the government-wide statements and proprietary fund financial statements deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements deferred revenue is recognized when revenue is unearned or unavailable. The City has reported deferred revenue of \$7,509 and \$974 in the General Fund and Landfill Construction Fund for personal property taxes. An additional \$10,000 in the General Fund and \$23,661 in the GLFT Fishing Pier Fund for amounts not earned as of June 30, 2008. These amounts have been deemed measurable, but not currently available.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

j. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate. Proprietary fund equity is classified the same as in the government-wide statements.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(5) REVENUES AND EXPENDITURES/EXPENSES

Revenues

Government-Wide Statements

In the government-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues which do not meet the criteria of program revenues and include revenues such as property taxes, State revenue sharing payments and interest earnings.

Fund Statements

In the governmental fund statements revenues are reported by source, such as federal sources, state sources and taxes. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the City's policy to use restricted resources first.

Expenses/Expenditures

Government-Wide Statements

In the government-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

Fund Statements

In the governmental fund financial statements expenditures are classified by character; current, debt service and capital outlay.

In the proprietary fund financial statements expenses are classified by operating and nonoperating and are subclassified by function such as salaries, supplies and contracted services.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities.

Other Financing Sources (Uses)

The transfers of cash between the various City funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

(6) OTHER SIGNIFICANT ACCOUNTING POLICIES

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities, and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to the third Monday in April, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. The City will hold a public hearing on the proposed budget prior to its final adoption. City Council shall adopt, by resolution, a budget for the next fiscal year no later than the second regular meeting in May.
- c. Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the City Council in June. Individual amendments were material in relation to the original appropriations which were amended.
- d. Encumbrance accounting under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control. Any unexpendable appropriations lapse at the end of the fiscal year.

Property Taxes

Property taxes levied attach as an enforceable lien on property. The City's annual property tax on real and personal property within the City is levied on July 1, payable by September 15, and is based on the taxable valuation of the property on the preceding December 31. Unpaid property taxes become delinquent on March 1, and all delinquent real property taxes are purchased by the County Treasurer. The City bills and collects its own property taxes and also the taxes for the local School District, the Intermediate School District and the County. City property tax revenues are recognized when levied to the extent that they result in current receivables.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – BUDGET AND FUND BALANCE NON-COMPLIANCE

Budget Violations – Public Act 621 of 1978, as amended, requires the adoption of a balanced budget for the General Fund and Special Revenue Funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

- (1) The following funds had an excess of expenditures and other uses over appropriations:

DDA	\$ 5,615
Central Park Project	90,797

A deficit fund balance existed in the unreserved fund balances of the DDA Fund and the Range Street Project Fund in the amounts of \$104,297 and \$7,831, respectively. The City will be required to file a deficit elimination plan with the Michigan Department of Treasury.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE C – CASH AND EQUIVALENTS

City

The composition of cash and equivalents as reported in the government-wide Statement of Net Assets is presented below:

Imprest Cash		\$	80
Deposits:			
Checking accounts	\$	865,332	
Savings accounts		687,533	
Certificates of Deposit		<u>239,876</u>	<u>1,792,741</u>
Total cash and equivalents			<u>\$ 1,792,821</u>

Government-wide Statement of
Net Assets Presentation:

Unrestricted	\$	1,243,191	
Restricted		<u>547,058</u>	\$ 1,790,249
Statement of Fiduciary Net Assets			<u>2,572</u>
Total cash and equivalents			<u>\$ 1,792,821</u>

State statutes authorize the City to deposit and invest in the following:

- a. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE C – CASH AND EQUIVALENTS (continued)

- e. Bankers' acceptance of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
 - i. The purchase of securities on a when-issued or delayed delivery basis.
 - ii. The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.
 - iii. The limited ability to borrow and pledge a like portion of the portfolios' assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation of 1967, MCL 124.501 to 124.512.
- i. Investments pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, MCL 129.141 to 129.150.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE C – CASH AND EQUIVALENTS (continued)

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

Interest Rate Risk – The City carries no significant interest rate risk as all of its holdings are in bank accounts with a high degree of liquidity.

Credit Risk – The City did not hold any deposits in investments that require credit risk disclosure.

Custodial Credit Risk–Deposits – Custodial credit risk is the risk that in the event of a bank failure the City's deposits may not be returned. At June 30, 2008 the City held \$1,857,454 in bank deposits. Of this amount \$1,465,473 was uninsured and uncollateralized.

Concentration of Credit Risk – The City has no significant concentration of credit risk due to the fact that all deposits are in local financial institutions.

Foreign Currency Risk – The City has no foreign currency risk as it has no deposits in foreign currency.

The City's investment policy is silent in respect to the above risks, however, it does state that, "Safety of the principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio."

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE C – CASH AND EQUIVALENTS (continued)

Cash has been restricted within the listed funds as follows:

Governmental Activities:

General Fund:

PSO fantasy project	\$ 864
Christmas donation	3,382
Landfill perpetual care	8,376

Total General Fund		\$ 12,622
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Permanent Fund:

Cemetery Perpetual Care	164,253
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Total Governmental Activities		\$ 176,875
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Business-Type Activities:

Waste Water Utility:

1999 bond reserve	\$ 164,357
1999 bond and interest redemption	36,784
Bond proceeds	7,708

Water Utility:

Bond proceeds	1,900
FMHA bond reserve	95,608
Jr lien bond and redemption	33,826

Recreation Building:

Donations	30,000
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Total Business-Type Activities		\$ 370,183
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NOTE D – ACCOUNTS RECEIVABLE

Business-Type Activities:

1. Ambulance Fund – The City has established a reserve for uncollectable accounts. The gross amount of the accounts receivable for the Ambulance Fund is \$193,024 and the allowance for uncollectable accounts was \$83,647, leaving a net accounts receivable of \$109,377.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE E – CAPITAL ASSETS

City

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Capital asset activity for the year ended June 30, 2008, was as follows:

	Balance at July 1, 2007	Additions	Disposals	Balance at June 30, 2008
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 125,807	\$ -	\$ -	\$ 125,807
Capital assets being depreciated:				
Land improvements	97,865	552,588	-	650,453
Buildings	831,932	-	-	831,932
Machinery and equipment	529,924	82,057	-	611,981
Vehicles	661,909	-	-	661,909
Infrastructure-road system	5,871,355	616,246	-	6,487,601
Total depreciable assets	7,992,985	1,250,891	-	9,243,876
Total capital assets	8,118,792	1,250,891	-	9,369,683
Less accumulated depreciation:				
Land improvements	14,394	3,397	-	17,791
Buildings	378,612	18,127	-	396,739
Machinery and equipment	239,232	29,889	-	269,121
Vehicles	215,427	54,810	-	270,237
Infrastructure-road system	2,715,351	242,179	-	2,957,530
Total accumulated depreciation	3,563,016	348,402	-	3,911,418
Net depreciable capital assets	4,429,969	902,489	-	5,332,458
Governmental activities capital assets, net	\$ 4,555,776	\$ 902,489	\$ -	\$ 5,458,265

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE E – CAPITAL ASSETS (continued)

	Balance at July 1, 2007	Additions	Disposals	Balance at June 30, 2008
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 2,139	\$ -	\$ -	\$ 2,139
Capital assets being depreciated:				
Land improvements	58,996	-	-	58,996
Buildings	888,032	58,285	-	946,317
Machinery and equipment	1,329,921	94,218	2,464	1,421,675
Distribution/collection system	21,200,533	597,595	-	21,798,128
Total depreciable assets	23,477,482	750,098	2,464	24,225,116
Total capital assets	23,479,621	750,098	2,464	24,227,255
Less accumulated depreciation:				
Land improvements	26,095	3,972	-	30,067
Buildings	185,026	23,976	-	209,002
Machinery and equipment	829,650	73,304	2,237	900,717
Distribution/collection system	8,721,048	470,943	-	9,191,991
Total accumulated depreciation	9,761,819	572,195	2,237	10,331,777
Net depreciable capital assets	13,715,663	177,903	227	13,893,339
Business-type activities capital assets, net	\$ 13,717,802	\$ 177,903	\$ 227	\$ 13,895,478

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE E – CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental activities as follows:

Governmental activities:		
General government	\$	24,965
Public health and safety		26,134
Parks and recreation		4,161
General public works		52,904
Street system		<u>240,238</u>
Total governmental activities depreciation expense	\$	<u>348,402</u>
Business-type activities:		
Ambulance	\$	27,292
Recreation building		32,855
Waste water utility		267,683
Water utility		<u>244,365</u>
Total business-type activities depreciation expense	\$	<u>572,195</u>

The City adopted a capitalization policy that identifies fixed assets as those having a value of \$5,000 or more as of July 1, 2003.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE F – RETIREMENT PLANS

City

MUNICIPAL EMPLOYEE’S RETIREMENT SYSTEM

Plan Description – The City of Manistique participates in a defined benefit noncontributory retirement plan administered by the Municipal Employee’s Retirement System (MERS) which covers substantially all full-time employees. MERS is a multiple-employer public employee retirement system that acts as a common investment and administrative agent for all Michigan municipal employees. Contributions to the plans include provisions for funding of prior service costs in excess of fund assets where applicable. Benefits vest after ten years of service. The MERS plan also provides death and disability benefits.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851, MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

There are three valuation divisions within the plan which provide different benefit provisions. The General division has adopted benefit B-4, which provides for an annual retirement benefit, payable monthly for life, in an amount equal to the sum of 2.5% of a member’s final five-year average compensation. The Police/Fire division has adopted benefit B-4. Under benefit B-4, employees shall receive 2.5% of their five-year final compensation, with a maximum benefit of 80% of final average compensation. The Admin division has adopted benefit B-4, by which employees shall receive 2.5% of their three-year final compensation, with a maximum benefit of 80% of final average compensation.

The General, Police/Fire and Police/Non-Union divisions have adopted post-retirement adjustment benefit E-2 which provides automatic 2.5% annual non-compounded benefit increases to retiree’s and their beneficiaries who retired on or after the effective date of benefit E-2. Increase is limited to increases in the consumers price index.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE F – RETIREMENT PLANS (continued)

Actuarial Accrued Liability – The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2007. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a net long-term investment yield of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2007 actuarial valuation to determine the annual employer contribution amounts. The entry age normal cost actuarial method was used to determine the entries at disclosure.

GASB 25 INFORMATION (AS OF 12/31/07)

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	\$ 5,803,398
Terminated employees not yet receiving benefits	1,510
Current Employees:	
Accumulated employee contributions including allocated investment income	27,743
Employer financed	<u>3,910,590</u>
Total actuarial liability	9,743,241
Net assets available for benefits, at actuarial value (market value is \$5,539,693)	<u>5,475,815</u>
Unfunded (overfunded) actuarial accrued liability	<u><u>\$ 4,267,426</u></u>

GASB 27 INFORMATION (AS OF 12/31/07)

Fiscal year beginning	July 1, 2009
Annual required contribution (ARC)	\$ 371,244
Amortization factor used - unfunded liabilities (28 years)	0.055889

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE F – RETIREMENT PLANS (continued)

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2007 were determined using the entry age normal cost actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	\$ 231,330	100%	\$ -
2006	261,587	100%	-
2007	356,701	100%	-

The City was required to contribute \$397,553 for the year ended June 30, 2008. Payments were based on contribution calculations made by MERS.

The City was required to contribute at an actuarially determined rate, which is a percentage of covered payroll as listed below:

Valuation Division	Contribution Percentage				
	2009 *	2008 *	2007 *	2006 *	2005 *
General	27.40%	26.65%	27.67%	23.55%	16.19%
Police/Fire	26.43%	26.14%	26.08%	24.12%	23.04%
Admin	56.76%	60.65%	60.45%	57.66%	24.88%

* Represents the actuarial required contribution for the fiscal year beginning July 1st.

Aggregate Accrued Liabilities – Comparative Schedule

Actuarial Valuation Date December 31,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
2005	\$ 4,932,840	\$ 8,671,210	\$ 3,738,370	57%	\$ 1,002,244	373%
2006	5,158,434	9,334,743	4,176,308	55%	1,173,120	356%
2007	5,475,815	9,743,241	4,267,426	56%	1,219,265	350%

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE F – RETIREMENT PLANS (continued)

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1993, 1997, 2000 and 2004 valuations. The funding method was changed to entry age normal for the 1993 valuation.

NOTE G – VESTED EMPLOYEE BENEFITS

Substantially all City employees are entitled to certain vacation, sick pay benefits, and compensation time that accrue and vest based on various union and employment agreements. Vacation pay is not subject to accumulations beyond a one-year period. Sick pay accumulations are limited based upon various criteria. Compensated absences in the amount of \$161,759 are reported under governmental activities and \$58,966 is reported under business-type activities in the Statement of Net Assets.

NOTE H – POST-RETIREMENT HEALTH BENEFITS

The City pays health insurance premiums for employees who retire under the terms of employment contracts or City policy, until the retiree reaches age 65 or becomes eligible for Medicare. The insurance premiums are financed on a pay-as-you-go basis and are recorded as expenditures when paid. The City has not recorded a liability in the Statement of Net Assets for future post-employment health care costs. The following is a summary of the post-employment health benefits:

For the year ended June 30,	Annual Cost	Number of Retirees Receiving Benefits
2004	\$ 78,401	10
2005	107,792	13
2006	123,802	13
2007	121,195	12
2008	120,526	12

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE I – LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2008:

Type of Debt	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008	Amounts Due Within One Year
Governmental Activities:					
Note - M-TEC energy	\$ 32,794	\$ -	\$ 8,917	\$ 23,877	\$ 9,097
Note - 2006 dump truck	35,978	-	35,978	-	-
Note - 2006 snow blower	59,789	-	19,110	40,679	19,846
DDA bonds - 1994	195,000	-	95,000	100,000	100,000
DDA bonds - series II	285,000	-	90,000	195,000	95,000
DDA bonds - 2001	420,000	-	30,000	390,000	30,000
DDA bonds - 2005	315,000	-	155,000	160,000	160,000
Landfill bonds	1,855,000	-	60,000	1,795,000	70,000
Landfill postclosure cost	520,000	624,000	44,000	1,100,000	44,000
Compensated absences	144,639	17,120	-	161,759	40,440
Total governmental long-term debt	<u>\$ 3,863,200</u>	<u>\$ 641,120</u>	<u>\$ 538,005</u>	<u>\$ 3,966,315</u>	<u>\$ 568,383</u>
Business-type Activities:					
Note - ambulance garage	\$ 33,000	\$ -	\$ 33,000	\$ -	\$ -
Note - recreation	2,868	-	2,868	-	-
Note - 2007 recreation	60,000	-	13,925	46,075	14,623
Bond - 1999 waste water	2,389,000	-	33,000	2,356,000	34,000
Bonds - 1995 water	1,705,000	-	30,000	1,675,000	35,000
Bonds - 2004 water	693,000	-	95,000	598,000	95,000
Compensated absences	48,796	10,170	-	58,966	17,690
Total business-type long-term debt	<u>\$ 4,931,664</u>	<u>\$ 10,170</u>	<u>\$ 207,793</u>	<u>\$ 4,734,041</u>	<u>\$ 196,313</u>

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE I – LONG-TERM DEBT (continued)

Debt service requirements on long-term debt at June 30, 2008 are as follows:

Year Ending June 30,	Governmental Activities			
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2009	\$ 28,943	\$ 1,963	\$ 455,000	\$ 123,461
2010	30,113	1,779	215,000	105,106
2011	5,500	37	130,000	95,765
2012	-	-	140,000	89,360
2013	-	-	155,000	82,340
2014-2018	-	-	855,000	290,194
2019-2023	-	-	690,000	87,367
	<u>\$ 64,556</u>	<u>\$ 3,779</u>	<u>\$ 2,640,000</u>	<u>\$ 873,593</u>

Year Ending June 30,	Business-type Activities			
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2009	\$ 14,623	\$ 2,281	\$ 164,000	\$ 201,630
2010	15,346	1,557	166,000	195,369
2011	16,106	797	167,000	188,827
2012	-	-	169,000	182,027
2013	-	-	171,000	172,225
2014-2018	-	-	586,000	784,806
2019-2023	-	-	571,000	653,064
2024-2028	-	-	712,000	507,736
2029-2033	-	-	886,000	325,752
2034-2038	-	-	767,000	130,952
2039-2043	-	-	270,000	12,465
	<u>\$ 46,075</u>	<u>\$ 4,635</u>	<u>\$ 4,629,000</u>	<u>\$ 3,354,853</u>

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE I – LONG-TERM DEBT (continued)

Governmental Activities:

As of June 30, 2008, the governmental activities long-term debt consisted of the following:

Notes Payable:

During the year ended June 30, 2004, the City signed an 84-month note for energy improvements made to City facilities. The note calls for monthly principal and interest payments of \$791 and bears an interest rate of 2.0%.

During the year ended June 30, 2006, the City signed a 36 month note for the purchase of a 2005 tandem axle dump truck. The note calls for three annual payments \$20,165 and bears an interest rate of 4.49%. This note was paid off in 2008.

During the year ended June 30, 2006, the City signed a 48 month note for the purchase of a snow blower. The note calls for four annual payments \$21,415 and bears an interest rate of 3.855%.

Bonds Payable:

In April 1994 the Downtown Development Authority issued general obligation limited tax bonds for the purpose of making public improvements to the downtown development area. The bonds were issued in the face amount of \$995,000 and bear an interest rate which varies from 5.3% to 6.0% and have a final maturity of May 2009.

In November 1994 the Downtown Development Authority issued Series II general obligation limited tax bonds for \$995,000 with a variable interest rate ranging from 6.5% to 7.1% and has a final maturity of November 2009. The purpose of the bond issue was to complete the downtown improvement project, which was started with the April 1994 DDA bond issue.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE I – LONG-TERM DEBT (continued)

Bonds were issued August 2001 in the name of the Downtown Development Authority for \$550,000 at an interest rate of 7.0% through 2003 and 5.0% thereafter for the purpose of public improvements in the downtown development area. The bonds have final maturity of September 2016.

Bonds were issued September 2005 in the name of the Downtown Development Authority for \$465,000 at an interest rate of 3.54% for the purpose of public improvements in the downtown development area. The bonds have final maturity of October 2008.

Bonds were issued March 2002 for \$2,055,000 for the purpose of closing the City landfill. The City has issued a separate levy for the purpose of making the future debt payments. The bonds call for annual principal payments and semi-annual interest payments and bear an interest rate ranging from 4.25% to 5.05% and have a final maturity of May 2022.

As part of closing the City's landfill, the Michigan Department of Environmental Quality (MDEQ) required the site to be monitored to ensure the site is compliant with the various environmental requirements of the MDEQ. Because of this requirement, the City had estimated the cost of the future monitoring to be \$20,000 per year for a period of 30 years beginning in the year 2003. In 2008 the City revised the estimate to \$44,000 per year, which is based on an average of the past couple of years actual costs, which are expected to be consistent in future periods.

Business-type Activities:

As of June 30, 2008, the long-term debt of business-type activities consists of the following:

Note Payable:

During the year ended June 30, 2002, the City signed a 108-month note for the purchase/construction of an ambulance garage. The note calls for annual principal and semi-annual interest payments and bears an interest rate of 5.24%. This note was paid off in 2008.

The City issued a note to the Manistique Hockey Association for improvements made at the recreation building in the amount of \$8,330. The note calls for three annual payments of \$2,919 and bears an interest rate of 3.28%. This note was paid off in 2008.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE I – LONG-TERM DEBT (continued)

During the year ended June 30, 2007, the City issued a note for improvements at the recreation building in the amount of \$60,000. The note calls for four annual principal and interest payments of \$16,903 and bears an interest rate of 4.95% with a final maturity date of May 2011.

Bonds Payable:

1999 Waste Water System Bond - Waste water system revenue bond, original issue dated September 28, 1999 for \$2,581,000 with an interest rate of 4.5%. Principal amounts are due in varying annual installments each August 1st beginning in 2000 and ending in 2039. Interest payments are due semi-annually each August 1st and February 1st. Principal installments of this bond are subject to prepayment prior to maturity, in inverse chronological order, at the Issuer's option, on any interest payment date on or after August 1, 2000, at par and accrued interest to the date fixed for prepayment. The purpose of the bond was to construct certain additions, renovations, expansions and improvements to the waste water system.

1995 Water System Bond - Water system junior lien revenue bond, series 1995A, original dated June 9, 1995 for \$1,900,000 with an interest rate of 4.5%. Bonds are due serially from June 1, 1996 until June 1, 2035. Interest is payable June 1 and December 1. Principal installments of this bond are subject to prepayment prior to maturity, in inverse chronological order, at the Issuer's option, on any interest payment date on or after December 1, 1996, at par and accrued interest to the date fixed for prepayment. The purpose of the bond is to construct improvements to the water system.

2004 Water System Bonds – On June 1, 2004 the City issued water system limited tax general obligation bond refunding series 2004 for the purpose of retiring the 1975 water system bonds. The bonds were issued to the State Savings Bank, Manistique, Michigan in the amount of \$985,000 and have a variable interest rate of 1.9% to 4.55%. Interest payments are due and payable each December 1 and June 1. Principal payments are due each December 1 with the final principal payment due December 1, 2014.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE J – INTERFUND BALANCES AND TRANSFERS

Interfund receivables/payables represent temporary advances between funds for goods or services, or to cover short-term cash flow requirements. Individual fund interfund receivables and payable balances at June 30, 2008 are as follows:

Fund	Interfund Receivable	Fund	Interfund Payable
		Major Street Fund	\$ 2,066
		Local Street Fund	500
		DDA	20,279
		Landfill Construction	86
		Lakeside Road Project	1,186
		Ambulance	3,743
		Waste Water System	1,413
		Water System	91,307
General Fund	\$ 120,580	Subtotal	120,580
Waste Water Sytem	205,363	General Fund	205,363
Total	\$ 325,943	Total	\$ 325,943

Interfund transfers for the year ended June 30, 2008 were as follows:

	Transfers In		Transfers Out
Recreation Building	\$ 5,000		
Central Park Project	20,000		
Subtotal	\$ 25,000	General Fund	\$ 25,000
DDA Debt Service	448,812		
Range Street Project	55,000		
Waste Water Utility	60,000		
Subtotal	563,812	DDA	563,812
Local Street	25,000	Major Street	25,000
Range Street Project	65,000		
Water Utility	10,644		
Subtotal	75,644	Waste Water Utility	75,644
Range Street Project	45,166		
Lakeside Road Project	67,456		
Subtotal	112,622	Water Utility	112,622
Total	\$ 802,078	Total	\$ 802,078

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE J – INTERFUND BALANCES AND TRANSFERS (continued)

The primary purpose of interfund transfers were for debt service requirements for various DDA projects, the DDA, Water Utility and Wastewater Utility's local match for capital projects, the reallocation of ACT 51 funds between Local and Major Street funds and an operating appropriation from the General Fund to the Recreation fund.

NOTE K – RESTRICTED NET ASSETS

In the Statement of Net Assets, for governmental activities, net assets has been restricted in the amount of \$3,382 which represents donations with use of those funds for a specific purpose. Also an amount of \$389,289 has been restricted in the governmental activities column for net assets which are restricted for the sole purpose of maintaining and monitoring the landfill. Net assets have been restricted and are nonexpendable in the amount of \$164,253 and represent the portion of net asset, which may not be spent on cemetery care. The interest earnings from the \$164,253 may be used to provide care for the City's cemeteries.

Net assets restricted by enabling legislation amounted to \$553,542, which represents the landfill and cemetery care funds listed above.

NOTE L – RISK MANAGEMENT

City

The City is exposed to various risks of loss to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE M – CONTINGENT LIABILITIES

The City has received financial assistance from federal and state agencies. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the City. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements or on the overall financial position of the City as of June 30, 2008.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE N – LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

The City of Manistique, as licensee, previously operated a landfill on land owned by the State of Michigan. State and federal laws and regulations require that a final cover be placed on the landfill and that certain maintenance and monitoring functions be performed at the landfill site for thirty years after closure.

During the year ended June 30, 2002, the City issued bonds in the amount of \$2,055,000 for the purpose of paying a portion of the cost of the landfill closure and acquiring and installing equipment for ongoing landfill monitoring and related structures and equipment necessary to comply with Michigan Department of Environmental Quality and court ordered requirements.

The City originally recognized a liability in the amount of \$600,000 in the financial statements for estimated postclosure monitoring costs. These costs were based on an estimated amount of \$20,000 per year for 30 years. In 2008, the City revised the estimate based upon the average of the past couple of years actual monitoring costs, which amounted to \$44,000 per year and required a change in accounting estimate going forward of an additional \$624,000 of liability and expense being recorded in 2008. With 25 years of monitoring remaining, the liability recorded for post closure monitoring is \$1,100,000 as of June 30, 2008. These estimates could change in the future based upon changes in state and federal laws and regulations, inflation or deflation and technology. Since December 1996, three mills are levied annually for landfill closure and postclosure care costs. Proceeds from this levy will be used to cover the bond payment and future maintenance and monitoring expenses.

CITY OF MANISTIQUE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
Federal sources	\$ -	\$ 64,079	\$ 67,632	\$ 3,553
State sources	453,208	448,638	448,638	-
Local sources	13,650	24,782	30,792	6,010
Taxes	751,000	778,466	777,568	(898)
Recreation	34,000	29,000	29,868	868
Public safety	900	1,866	1,866	-
Charges for services	482,471	503,366	517,746	14,380
Equipment rental	210,000	293,896	294,276	380
Interest income	9,500	22,303	22,405	102
Miscellaneous	68,083	78,481	77,137	(1,344)
Total revenues	\$ 2,022,812	\$ 2,244,877	\$ 2,267,928	\$ 23,051
EXPENDITURES:				
General government:				
City council	\$ 11,900	\$ 13,249	\$ 11,404	\$ 1,845
Community promotion	10,150	9,476	8,090	1,386
City manager	100,519	100,819	100,280	539
General administration	16,700	22,037	21,510	527
Office assistant	114,884	114,967	118,071	(3,104)
Elections	13,600	15,200	13,522	1,678
City assessor	43,750	52,639	54,675	(2,036)
City attorney	26,000	23,000	22,265	735
City clerk	67,703	70,063	73,259	(3,196)
Board of review	800	800	501	299
City treasurer	23,640	24,989	23,466	1,523
Building and grounds	76,773	81,212	66,374	14,838
Cemeteries	84,800	88,400	79,425	8,975
Planning	2,925	3,217	2,549	668
Public health and safety:				
Public safety	702,184	738,126	733,745	4,381
Parks and recreation:				
Parks	18,500	11,500	10,044	1,456
Recreation	-	11,000	9,937	1,063
Marina	43,100	48,700	38,508	10,192
West side boat launch	9,250	9,250	7,822	1,428
General public works:				
Department of public works	356,500	441,856	403,874	37,982
Street lighting	42,000	10,000	35,479	(25,479)
Capital outlay	22,520	78,221	66,000	12,221
Debt service	20,147	40,165	68,470	(28,305)
Other	208,000	203,954	200,404	3,550
Total expenditures	2,016,345	2,212,840	2,169,674	43,166
Excess revenues (expenditures)	6,467	32,037	98,254	66,217
OTHER FINANCING SOURCES (USES)				
Transfer out	(5,000)	(25,000)	(25,000)	-
Net changes in fund balances	1,467	7,037	73,254	66,217
Fund balances - beginning	280,400	280,400	280,400	-
Fund balances - ending	\$ 281,867	\$ 287,437	\$ 353,654	\$ 66,217

CITY OF MANISTIQUE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MAJOR STREET FUND
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
State sources	\$ 251,047	\$ 312,611	\$ 327,429	\$ 14,818
Interest income	3,000	6,000	4,739	(1,261)
Total revenues	254,047	318,611	332,168	13,557
EXPENDITURES:				
Street system	258,915	308,759	291,624	17,135
Excess revenues (expenditures)	(4,868)	9,852	40,544	30,692
OTHER FINANCING SOURCES (USES)				
Transfer out	(25,000)	(25,000)	(25,000)	-
Net changes in fund balances	(29,868)	(15,148)	15,544	30,692
Fund balances - beginning	185,525	185,525	185,525	-
Fund balances - ending	\$ 155,657	\$ 170,377	\$ 201,069	\$ 30,692

CITY OF MANISTIQUE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
LOCAL STREET FUND
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget-
	Original	Final	(See Note A)	Positive (Negative)
REVENUES:				
State sources	\$ 75,000	\$ 75,000	\$ 68,530	\$ (6,470)
Interest income	900	1,800	1,464	(336)
Total revenues	75,900	76,800	69,994	(6,806)
EXPENDITURES:				
Street system	100,565	118,373	100,510	17,863
Excess revenues (expenditures)	(24,665)	(41,573)	(30,516)	11,057
OTHER FINANCING SOURCES (USES)				
Transfer in	25,000	25,000	25,000	-
Net changes in fund balances	335	(16,573)	(5,516)	11,057
Fund balances - beginning	55,242	55,242	55,242	-
Fund balances - ending	\$ 55,577	\$ 38,669	\$ 49,726	\$ 11,057

CITY OF MANISTIQUE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
DDA FUND
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget-
	Original	Final	(See Note A)	Positive (Negative)
REVENUES:				
State sources	\$ -	\$ 22,000	\$ 22,819	\$ 819
Taxes	784,000	798,754	798,754	-
Bond proceeds	-	100,000	-	(100,000)
Interest income	4,000	5,800	5,805	5
Miscellaneous	-	21,618	21,618	-
Total revenues	788,000	948,172	848,996	(99,176)
EXPENDITURES:				
Economic development	160,467	281,773	296,005	(14,232)
Capital outlay	44,500	185,300	191,684	(6,384)
Total expenditures	204,967	467,073	487,689	(20,616)
Excess revenues (expenditures)	583,033	481,099	361,307	(119,792)
OTHER FINANCING SOURCES (USES)				
Transfer out	(587,398)	(578,813)	(563,812)	15,001
Net changes in fund balances	(4,365)	(97,714)	(202,505)	(104,791)
Fund balances - beginning	98,208	98,208	98,208	-
Fund balances - ending	\$ 93,843	\$ 494	\$ (104,297)	\$ (104,791)

CITY OF MANISTIQUE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
CENTRAL PARK PROJECT
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
State sources	\$ -	\$ 424,000	\$ 424,000	\$ -
Local sources	-	27,400	105,549	78,149
Total revenues	-	451,400	529,549	78,149
EXPENDITURES:				
Capital outlay	-	466,728	557,525	(90,797)
Total expenditures	-	466,728	557,525	(90,797)
Excess revenues (expenditures)	-	(15,328)	(27,976)	(12,648)
OTHER FINANCING SOURCES (USES)				
Transfer in	-	-	20,000	20,000
Net changes in fund balances	-	(15,328)	(7,976)	7,352
Fund balances - beginning	15,328	15,328	15,328	-
Fund balances - ending	\$ 15,328	\$ -	\$ 7,352	\$ 7,352

CITY OF MANISTIQUE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
RANGE STREET PROJECT
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
Federal sources	\$ -	\$ 505,000	\$ 466,861	\$ (38,139)
Local sources	-	-	-	-
Total revenues	-	505,000	466,861	(38,139)
EXPENDITURES:				
Capital outlay	-	730,367	670,225	60,142
Total expenditures	-	730,367	670,225	60,142
Excess revenues (expenditures)	-	(225,367)	(203,364)	22,003
OTHER FINANCING SOURCES (USES)				
Transfer in	-	195,000	165,166	(29,834)
Net changes in fund balances	-	(30,367)	(38,198)	(7,831)
Fund balances - beginning	30,367	30,367	30,367	-
Fund balances - ending	<u>\$ 30,367</u>	<u>\$ -</u>	<u>\$ (7,831)</u>	<u>\$ (7,831)</u>

CITY OF MANISTIQUE, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2008

	Debt Service	Capital Project Funds				Permanent Fund	Total Nonmajor Governmental Funds
	Debt Service	Lakeside Road Project	GLFT Fishing Pier	Landfill Construction	Cemetery Perpetual Care		
ASSETS							
Cash and equivalents:							
Restricted	\$ -	\$ -	\$ -	\$ -	\$ 164,253	\$	\$ 164,253
Unrestricted	-	9,061	32,800	381,675	-	-	423,536
Receivables:							
Delinquent taxes	-	-	-	974	-	-	974
Due from other governmental units	-	-	-	-	-	-	-
Total assets	\$ -	\$ 9,061	\$ 32,800	\$ 382,649	\$ 164,253	\$	\$ 588,763
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ -	\$ -	\$ 9,139	\$ 676	\$ -	\$	\$ 9,815
Due to other funds	-	1,186	-	86	-	-	1,272
Deferred revenue	-	-	23,661	974	-	-	24,635
Total liabilities	-	1,186	32,800	1,736	-	-	35,722
Fund balances:							
Reserved for:							
Cemetery perpetual care	-	-	-	-	164,253		164,253
Unreserved, undesignated	-	7,875	-	380,913	-	-	388,788
Total fund balances	-	7,875	-	380,913	164,253		553,041
Total liabilities and fund balances	\$ -	\$ 9,061	\$ 32,800	\$ 382,649	\$ 164,253	\$	\$ 588,763

See accompanying notes to financial statements.

CITY OF MANISTIQUE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

	Debt Service	Capital Project Funds				Permanent Fund	Total Nonmajor Governmental Funds
	Debt Service	Lakeside Road Project	GLFT Fishing Pier	Landfill Construction	Cemetery Perpetual Care		
REVENUES:							
State sources	\$ -	\$ 99,750	\$ 34,044	\$ -	\$ -	\$ -	\$ 133,794
Local sources	-	48,509	-	-	-	-	48,509
Taxes	-	-	-	190,945	-	-	190,945
Interest income	-	-	-	10,923	-	-	10,923
Miscellaneous	-	-	-	-	4,071	-	4,071
Total revenues	-	148,259	34,044	201,868	4,071	-	388,242
EXPENDITURES:							
Sanitary landfill	-	-	-	45,809	-	-	45,809
Capital outlay	-	412,868	34,044	-	-	-	446,912
Debt service:							
Principal	370,000	-	-	60,000	-	-	430,000
Interest and other charges	78,812	-	-	87,338	-	-	166,150
Total expenditures	448,812	412,868	34,044	193,147	-	-	1,088,871
Excess revenues (expenditures)	(448,812)	(264,609)	-	8,721	4,071	-	(700,629)
OTHER FINANCING SOURCES (USES):							
Transfers in	448,812	67,456	-	-	-	-	516,268
Net changes in fund balances	-	(197,153)	-	8,721	4,071	-	(184,361)
Fund balances - beginning	-	205,028	-	372,192	160,182	-	737,402
Fund balances - ending	\$ -	\$ 7,875	\$ -	\$ 380,913	\$ 164,253	\$ -	\$ 553,041

See accompanying notes to financial statements.

SINGLE AUDIT



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
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Kevin C. Pascoe, CPA
Laura L. Schwalbach, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Members
of the City Council
City of Manistique, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Manistique, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the City of Manistique, Michigan's basic financial statements and have issued our report thereon dated November 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Manistique, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Manistique, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Manistique, Michigan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Manistique, Michigan's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Manistique, Michigan's financial statements that is more than inconsequential will not be prevented or detected by the City of Manistique, Michigan's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting. The deficiency is referenced as 2008-2.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Manistique, Michigan's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider significant deficiency 2008-2 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Manistique, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2008-1.

We noted certain matters that we reported to management of the City of Manistique, Michigan, in a separate letter dated November 21, 2008.

City of Manistique, Michigan's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City of Manistique, Michigan's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

November 21, 2008



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

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Laura L. Schwalbach, CPA

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and Members
of the City Council
City of Manistique, Michigan

Compliance

We have audited the compliance of City of Manistique, Michigan, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. City of Manistique, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Manistique, Michigan's management. Our responsibility is to express an opinion on City of Manistique, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Manistique, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Manistique, Michigan's compliance with those requirements.

In our opinion, City of Manistique, Michigan, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of City of Manistique, Michigan, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Manistique, Michigan's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Manistique, Michigan's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Anderson, Tackman & Company P.C.".

Anderson, Tackman & Company, PLC
Certified Public Accountants

November 21, 2008

CITY OF MANISTIQUE, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2008

<u>Federal grantor/pass-through/program title</u>	<u>Federal CFDA Number</u>	<u>Agency or pass-through number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development			
Direct Funding:			
Economic Development Initiative	14.xxx	B-05-SP-MI-0831	\$ <u>5,912</u>
Passed through the Michigan Strategic Fund:			
Community Development Block Grant	14.228	MSC 206024-ICE	\$ <u>466,861</u>
Total U.S. Department of Housing and Urban Development			\$ <u>472,773</u>
U.S. Department of Homeland Security			
Direct Funding:			
Assistance to Firefighters Grant	97.044	EMW-2007-FO-08457	<u>22,971</u>
U.S. Department of Transportation			
Passed through the Michigan State Police State and Community Highway Safety	20.600	-	\$ <u>13,199</u>
U.S. Department of Agriculture			
Direct Funding:			
Community Facilities Loan & Grant Program	10.766	-	\$ 23,000
Community Facilities Loan & Grant Program	10.766	-	<u>26,000</u>
Total U.S. Department of Agriculture			\$ <u>49,000</u>
TOTAL FEDERAL AWARDS			<u>\$ 557,943</u>

See accompanying notes to the schedule of expenditures of federal awards.

CITY OF MANISTIQUE, MICHIGAN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008

NOTE A – OVERSIGHT AGENCY

The U.S. Department of Agriculture is the current year's oversight agency for single audit as determined by the agency providing the largest share of direct federal financial assistance.

NOTE B – BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards has been prepared on the modified accrual basis of accounting.

NOTE C – PASS-THROUGH GRANTOR'S OR PROGRAM NUMBERS

The pass-through grantor's number represents the County's provider I.D. number. Such other I.D. numbers were not available or provided by the State administering agencies.

NOTE D – FEDERAL REVENUE RECONCILIATION

Federal revenue per governmental fund financial statements	\$ 534,493
Federal expenditures per schedule of expenditures of federal awards	<u>557,943</u>
Difference	(23,450)
Reconciling items:	
Difference between recorded revenue and expenditures relating to the State & Community Highway Safety program	450
Federal revenue reported as capital contributions in the ambulance fund	<u>23,000</u>
Reconciled difference	<u><u>\$ -</u></u>

CITY OF MANISTIQUE, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2008

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the basic financial statements of the City of Manistique, Michigan.
2. There was one significant deficiency which was determined to be a material weakness disclosed during the audit of the basic financial statements, referenced as 2008-2, to be reported in the *Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.
3. There were no instances of noncompliance material to the basic financial statements of the City of Manistique, Michigan disclosed during the audit. However, noncompliance was disclosed and is referenced as 2008-1.
4. There were no significant deficiencies or material weaknesses disclosed during the audit of the major federal programs to be reported in the *Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133*.
5. The auditor's report on compliance for the major federal programs for the City of Manistique, Michigan expresses an unqualified opinion.
6. There were no findings noted relative to the major federal programs for the City of Manistique.
7. The programs tested as major programs included:
 - Community Development Block Grant CFDA #14.228
8. The threshold for distinguishing Type A & B programs was \$300,000.
9. The City of Manistique, Michigan was determined not to be a low-risk auditee.

CITY OF MANISTIQUE, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2008

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2008-1: Budget/Fund Balance Noncompliance

Statement of Condition/Criteria: Public Act 621 of 1978 requires that expenditures cannot be incurred until appropriated in accordance with the Uniform Budgeting and Accounting Act. During the fiscal year ended June 30, 2008, the City incurred expenditures in excess of amounts appropriated as follows:

	<u>Total</u> <u>Appropriation</u>	<u>Expenditures</u>	<u>Budget</u> <u>Variance</u>	<u>Deficit Fund</u> <u>Balance</u>
DDA	\$ 1,045,886	\$ 1,051,501	\$ (5,615)	\$ (104,297)
Central Park Project	466,728	557,525	(90,797)	N/A
Range Steet Project	N/A	N/A	N/A	(7,831)

Effect: The City has not complied with various State statutes.

Cause of Condition: Budget amendments were not made prior to the expenditure of funds.

Recommendation: Budget amendments should be made prior to the expenditure of funds.

Status: Management will review budgets monthly and make amendments as deemed necessary and file the required deficit elimination plan with the Michigan Department of Treasury.

2008-2: Audit Adjustments

Statement of Condition/Criteria: Material audit adjustments were required to properly accrue revenues and expenditures and to record capital asset activity.

Response/Status: Management will review procedures to properly accrue revenues and expenditures and to properly record capital asset activity.

CITY OF MANISTIQUE, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2008

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

None

CITY OF MANISTIQUE, MICHIGAN
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2008

**A. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

None

CITY OF MANISTIQUE, MICHIGAN

REPORT TO MANAGEMENT

JUNE 30, 2008



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

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Kevin C. Pascoe, CPA
Laura L. Schwalbach, CPA

November 21, 2008

To the City Council
City of Manistique, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Manistique for the year ended June 30, 2008, and have issued our report thereon dated November 21, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated July 28, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on July 28, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the useful lives of capital assets, the allowance for doubtful accounts related to ambulance services, and the post-closure monitoring liability for the landfill is based on past experience and knowledge of management and consultation with third party professionals. We evaluated the key factors and assumptions used to develop the estimated useful lives of capital assets, the allowance for doubtful accounts and the liability for post-closure monitoring in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Some of the misstatements detected as a result of audit procedures and corrected by management were material, and were made to properly accrue revenues and expenditures and to record capital asset activity.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 21, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards

require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the City Council and management of the City of Manistique and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in dark ink that reads "Anderson, Tackman & Company P.C." in a cursive, slightly stylized font.

Anderson, Tackman & Company, PLC
Certified Public Accountants

CITY OF MANISTIQUE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

June 30, 2008

Water and Sewer Bond Reserves:

Comment:

It appears that in the Sewer Fund, the bond requirements for funding the operation and maintenance fund and the repair, replacement and improvement fund appear to be inadequately funded. In the Water Fund, the bond requirements for funding the operation and maintenance fund and the bond reserve fund appear to be inadequately funded.

Recommendation:

The City should review the bond requirements for funding these accounts and adjust their utility rates so these funds can be adequately funded in accordance with the bond agreements.

Management Response:

The City Council has recently approved a rate increase that will help with this funding.

Tax Rate Request Form

Comment:

During our audit, we noted the tax rate request form filed with the Michigan Department of Treasury had the incorrect taxable value listed for the City.

Recommendation:

The tax rate request form should be reviewed for accuracy by the City Assessor and the City Treasurer Taxes prior to it being distributed.

Management Response:

The City Manager will review this with the City Assessor.

CITY OF MANISTIQUE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

June 30, 2008

Budget Non-Compliance

Comment:

Public Act 621 of 1978, as amended, requires the adoption of a balanced budget for the General Fund and Special Revenue Funds as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

- (1) The following funds had an excess of expenditures and other uses over appropriations:

DDA	\$ 5,615
Central Park Project	90,797

We also noted a deficit fund balance in the DDA Fund of \$104,297 and in the Range Street Project Fund of \$7,831.

Recommendation:

We recommend that budgets be amended as necessary to prevent expenditures from exceeding appropriations and a deficit elimination plan be filed with the Michigan Department of Treasury.

Management Response:

End of year expenditures exceeded our amendment estimates, therefore causing the excess of expenditures over appropriations. We will make a concerted effort to see that this does not happen next year.

CITY OF MANISTIQUE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

June 30, 2008

Backup of the Computer System

Comment:

During our audit, we noted the City currently does not back up its network server which stores all critical software systems the City operates.

Recommendation:

The City should backup their network server on at least a weekly basis and store the backup media off-site.

Management Response:

The city has contracted with LiveVault, a component unit of Harris, for our system backup. This is was in effect as of October 28, 2008.

Ambulance Account Receivable

Comment:

During our audit, we noted the City and Rampart are using different billing methods which is causing a variance in the accounts receivable balance between what the City shows as outstanding and what Rampart shows as outstanding.

Recommendation:

The City should reconcile with Rampart on a monthly basis and investigate any variances immediately.

Management Response:

The city will compare billings with Rampart monthly and adjust when necessary.

CITY OF MANISTIQUE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

June 30, 2008

GASB Statement 45 – Accounting and Financial Reporting By Employers for Post-Employment Benefits Other Than Pensions

Comment:

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is being implemented in three phases, with the City of Manistique being required to implement the Statement for the year ended June 30, 2010. GASB Statement 45 is going to impact the future accounting of post-employment health insurance costs as it relates to the amount the City will be required to pay for these benefits. Beginning July 1, 2009, the City will be required by U.S. governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to the post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used, as part of Statement 45, are similar to those currently used to determine required contribution rates for defined benefit pension plans.

The City Council as well as City Management should begin to consider the impact of GASB Statement 45 prior to the required implementation date.

Management Response:

The City will certainly address this issue and prepare for this future requirement.



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA
Laura L. Schwalbach, CPA

To the City Council and Management
of the City of Manistique

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Manistique as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency and a material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control.

Material audit adjustments were required to properly accrue revenues and expenditures and to record capital asset activity.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the significant deficiency noted above constitutes a material weakness.

This communication is intended solely for the information and use of management, City Council, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company P.C.

Anderson, Tackman & Company, PLC
Certified Public Accountants

November 21, 2008